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TAB "A"

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I. Communist China's Seaborne Trade during 1951.

1. Communist China's imports from non-orbit countries reached a record high of US \$360 million in the first half of 1951 and then fell sharply in the third quarter of 1951. China's exports in the first half of 1951 fell nearly 50%, however, from the high reached in the preceding period. Merchant ship traffic in trade with Communist China (which includes some orbit trade) generally increased during the first seven months of 1951, declining since then. This decline in trade with the West has been due in large part to Western export controls, increased imports from the Soviet bloc, institution of a system of selective buying and selling by the Chinese, and a shortage of foreign exchange resulting from heavy buying since mid-1950.

2. Most of the goods imported are strategic commodities essential to the war effort. Rubber, chemicals (including pharmaceuticals), and minerals and their manufactures accounted for two-

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thirds of total imports through Hong Kong (including Hong Kong-Macao trade) both in the second half of 1950 and the first half of 1951. Hong Kong's trade pattern is significant because during the first half of 1951 Hong Kong handled two-thirds to three-fourths of China's trade with the West. However, the trade pattern for direct trade is similar. Although Macao and other ports have assumed increasing importance as transshipment points for goods destined to Communist China since expanded trade controls were introduced in Hong Kong in June 1951, Hong Kong continues as the single most important source of Communist China's seaborne imports. The latest data shows that Communist China is relying more and more on the Orbit for her supply of metals, trucks, machinery, petroleum, and various steel products. Imports from the West have been largely for industry and transportation in an effort to build an economy capable of supporting the armed forces.

3. Communist China's exports of raw materials of animal and vegetable origin - such as soybeans, rice, wheat, oils accounted for two-thirds of her total exports in the first half of

1951. Textiles accounted for 10% more. Cessation of these exports would not seriously affect the Western economy since substitutes or Western supplies are generally available.

4. The main non-Communist trading countries involved in trade with Communist China are the Western European countries, and the United States as an importer. India and Pakistan are important (also as trans-shipment points) while Malaya, a major trading partner in the 1st quarter of 1951, has reduced its trade with China considerably since further controls were added in May.

5. A large portion, probably 50%, of the value of China's trade with the orbit is seaborne. Of the total China trade, probably two-thirds is carried by ship. It is likely that the orbit seaborne trade is composed largely of non-military goods while most of the military equipment for Korea goes by land. As China imports mainly (other than military goods) machinery, chemicals, petroleum and metals from the orbit and exports raw materials to the orbit, overall seaborne trade exhibits much the same pattern

as described for non-orbit trade. In terms of tonnage, probably 80% of the total trade is carried by ship.

6. Nearly all of China's seaborne trade has been carried in Western-registered ships. Probably less than 10% is carried in Soviet and Polish vessels. However, another 10% or 120,000 tons per month, is carried on Communist owned ships that are registered in the West.

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III. Communist Ability to Circumvent an Economic Embargo and/or
a Naval Blockade.

13. The Chinese Communist ability to continue sea-borne trade in the face of a UN imposed export and shipping would vary with the extent of enforcement of the control. As indicated in section I most of Communist China's sea-borne imports originate in non-Communist states and are carried in non-Communist shipping. It is doubtful if the Communist bloc could make available from their own resources goods and shipping to replace more than a small fraction of those now supplied to the China trade by non-Communist states. However, it is probable that a substantial quantity of goods originating in the west would become available for purchase by the Chinese Communists in non-cooperating countries and through trans-shipments of goods sent in normal trade from cooperating countries to other Communist or non-Communist countries. In addition to the limited amount of Communist bloc shipping that might be diverted from other routes to carry these goods to Communist

sufficient ships to offset substantially the effect of the shipping embargo.

14. If Communist China's seaborne imports were greatly reduced or cut off as a result of an economic embargo or a naval blockade, the Chinese Communists would be forced to depend on overland routes for all imports. The major existing overland routes into China from the west are the Trans-Siberian railroad, with an estimated daily eastbound capacity of 22,500 tons, part of which must be used for railroad supplies (the paralleling BAM railroad is not yet completed); truck and caravan routes through Mongolia, which could probably handle about 200 tons a day; truck and caravan routes from Russian Turkestan through the Kansu corridor, about 300 tons a day; and the Burma road, not over 500 tons per day and probably in practice much less. Routes from Indo-China could probably not be utilized.

15. It is estimated that Communist China received a minimum of 20,000 tons of supplies a day via ship during 1951. If shipping were

embargoed, it would be impossible for China to receive more than a very small part of this tonnage by overland routes from the USSR, because 1) the Trans-Siberian railroad, with an estimated net capacity of 22,500 tons per day eastbound, is already operating near capacity in transporting military and industrial goods to the Soviet Far East and to China. A large part of this moves to the Soviet Far East. It is therefore unlikely that this line would be able to handle more than a few thousand tons of additional traffic. 2) The lines in Manchuria leading from Manchouli to Harbin and from Suifenhe to Harbin have a combined capacity of about 14,000 tons a day. These lines are not being utilized to full capacity at all times, and would be able to absorb the few thousand tons additional traffic which the Trans-Siberian might be able to deliver to them. However, this would probably require the suspension of non-military traffic from time to time as has occurred periodically in the past year, and this would affect unfavorably the economy of the region. Even at full capacity these lines can carry only a small part of the present total waterborne and overland imports of China.